

GAO

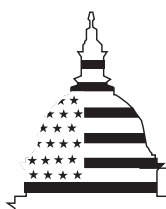
Report to the Chairman, Committee on  
Veterans' Affairs, House of  
Representatives

---

December 2000

# VETERANS' BENEFITS

## Veterans Have Mixed Views on a Lump Sum Disability Payment Option



G A O

Accountability \* Integrity \* Reliability

## Form SF298 Citation Data

<b>Report Date</b> <i>("DD MON YYYY")</i> 00DEC2000	<b>Report Type</b> N/A	<b>Dates Covered (from... to)</b> <i>("DD MON YYYY")</i>
<b>Title and Subtitle</b> VETERANS BENEFITS Veterans Have Mixed Views on a Lump Sum Disability Payment Option		<b>Contract or Grant Number</b>
<b>Authors</b>		<b>Program Element Number</b>
<b>Performing Organization Name(s) and Address(es)</b> General Accounting Office, Washington, DC 20013		<b>Project Number</b>
<b>Sponsoring/Monitoring Agency Name(s) and Address(es)</b>		<b>Task Number</b>
<b>Distribution/Availability Statement</b> Approved for public release, distribution unlimited		<b>Work Unit Number</b>
<b>Supplementary Notes</b>		<b>Performing Organization Number(s)</b> GAO-01-172
<b>Abstract</b> For more than two centuries, veterans of the U.S. Armed Forces have been compensated for disabilities sustained while serving their country. The current program is designed to compensate veterans for average reduction in earning capacity. Compensation is based on the severity of a veterans disability and paid on a monthly basis. After an initial rating for compensation has been determined, veterans who believe their condition has worsened may file a claim with the Department of Veterans Affairs (VA) to reevaluate their disability rating and potentially increase their monthly payments. In fiscal year 1999, these repeat claims outnumbered initial disability applications by nearly three to one, dominating VAs workload. VAs claims processing performance has caused concern for a number of years because of growing backlogs of pending initial and repeat claims, which have delayed disability decisions and veterans receipt of compensation. To help reduce the volume of repeat claims, the Veterans Claims Adjudication Commission, in its 1996 report, asked Congress to consider paying less severely disabled veterans compensation in a lump sum. <sup>1</sup> According to the Commission, this change could have a number of benefits for VA as well as veterans. Specifically, the lump sum option could reduce the number of claims submitted and allow VA to process claims more quicklyespecially those of more seriously disabled veterans. Moreover, a lump sum option could be more useful to some veterans as they make the transition from military to civilian life.		<b>Monitoring Agency Acronym</b>
		<b>Monitoring Agency Report Number(s)</b>

<b>Subject Terms</b>	
<b>Document Classification</b> unclassified	<b>Classification of SF298</b> unclassified
<b>Classification of Abstract</b> unclassified	<b>Limitation of Abstract</b> unlimited
<b>Number of Pages</b> 34	



---

# Contents

---

Letter		3
--------	--	---

---

Appendixes	Appendix I: Scope and Methodology	20
	Appendix II: Comments from the Department of Veterans Affairs	27
	Appendix III: GAO Contacts and Staff Acknowledgments	28

---

Tables	Table 1: Perceived Advantages and Disadvantages of a One-Time Lump Sum Disability Payment Identified by Veterans and Military Personnel	12
	Table 2: Stratification Levels of Sample by Characteristic	21
	Table 3: Sample Size and Response Rate	22

---

Figures	Figure 1: Veterans’ Views on Whether VA Should Offer a Choice Between Monthly Payments and a Lump Sum Payment	8
	Figure 2: Percentage of Veterans Who Probably or Definitely Would Have Been Interested in Taking a Lump Sum When First Compensated, by Selected Characteristics	10

---

## Abbreviations

DOD	Department of Defense
VA	Department of Veterans Affairs
VBA	Veterans Benefits Administration





United States General Accounting Office  
Washington, D.C. 20548

December 18, 2000

The Honorable Bob Stump  
Chairman  
Committee on Veterans' Affairs  
House of Representatives

Dear Mr. Chairman:

For more than two centuries, veterans of the U.S. Armed Forces have been compensated for disabilities sustained while serving their country. The current program is designed to compensate veterans for average reduction in earning capacity. Compensation is based on the severity of a veteran's disability and paid on a monthly basis. After an initial rating for compensation has been determined, veterans who believe their condition has worsened may file a claim with the Department of Veterans Affairs (VA) to reevaluate their disability rating and potentially increase their monthly payments. In fiscal year 1999, these repeat claims outnumbered initial disability applications by nearly three to one, dominating VA's workload.

VA's claims processing performance has caused concern for a number of years because of growing backlogs of pending initial and repeat claims, which have delayed disability decisions and veterans' receipt of compensation. To help reduce the volume of repeat claims, the Veterans' Claims Adjudication Commission, in its 1996 report, asked Congress to consider paying less severely disabled veterans compensation in a lump sum.<sup>1</sup> According to the Commission, this change could have a number of benefits for VA as well as veterans. Specifically, the lump sum option could reduce the number of claims submitted and allow VA to process claims more quickly—especially those of more seriously disabled veterans. Moreover, a lump sum option could be more useful to some veterans as they make the transition from military to civilian life.

To learn how future veterans who become eligible for compensation might respond to a lump sum option, you asked us to survey veterans who are currently compensated. We are also providing information on (1) the

---

<sup>1</sup>Veterans' Claims Adjudication Commission, *Report to Congress* (Dec. 1996). Consideration of a lump sum payment dates back to at least the 1950s, when a presidential commission raised the possibility. See *Findings and Recommendations of the President's Commission on Veterans' Pensions (Bradley Commission)* (Washington, D.C.: Government Printing Office, 1956).

---

advantages and disadvantages for veterans that veterans and military personnel believe would be associated with a one-time lump sum payment, (2) strategies veterans and military personnel have suggested for mitigating perceived disadvantages, and (3) other lump sum programs that may have relevance for VA disability compensation. For example, we reviewed the Department of Defense's (DOD) provisions for a lump sum severance payment to disabled military personnel.

To conduct our work, we surveyed through a mail questionnaire a representative sample of compensated veterans and held focus groups with selected compensated veterans and active-duty military personnel. Our survey and focus groups captured views on a broadly defined hypothetical program that would give veterans the option of taking a one-time lump sum payment but would not allow them to reapply if the disability for which they were compensated worsened. We also discussed such a lump sum option with representatives from veteran service organizations; military service organizations; and the Veterans Benefits Administration (VBA), which administers VA disability compensation. In addition, we reviewed relevant studies on lump sum payments and obtained information about lump sums in other federal programs and six foreign countries. We did not assess the potential effects a lump sum option might have on either the disability claims workload or government cost. We performed our evaluation from August 1999 through November 2000 in accordance with generally accepted government auditing standards. (See app. I for more detail on our methodology.)

---

## Results in Brief

Veterans had mixed views about a hypothetical option to offer newly compensated veterans the choice between monthly disability payments and a lump sum payment. Support for offering the choice of a lump sum payment was nearly equally split: 49 percent supported the idea, and 43 percent were against it; the remaining 8 percent were unsure. About one-third of veterans responded that they would have been interested in a lump sum payment had this option been available when they were first compensated—a gauge of the level of interest new recipients may have. In addition, younger and less severely disabled veterans—who may more closely match the overall demographics of future recipients—were most likely to report interest in a lump sum option, at 46 percent and 39 percent, respectively. However, program details could substantially affect veterans' views about the lump sum option. For example, in discussions with veterans and military personnel, we found that uncertainty about the dollar value of the lump sum amounts that would be available made them less

---

sure of whether they supported the option or would be interested in taking a lump sum. Moreover, some were skeptical and suggested that such an option would be designed primarily to cut the government's costs rather than to benefit veterans.

The veterans and military personnel we spoke with perceived advantages and disadvantages for veterans if a lump sum option were available. These perceptions may, in part, explain the degree to which they supported or would have been interested in such an option. The advantages they cited for choosing a lump sum payment included having more capital to make a down payment on a house, start a business, or invest in education. The disadvantages primarily focused on risks to long-term financial welfare. Veterans were particularly concerned about what would happen if the disability for which they were compensated worsened and they were not allowed to apply in the future for a higher disability rating and additional compensation.

Veterans and military personnel suggested some strategies that they believed could minimize the financial risks a lump sum payment option might introduce. For example, to reduce the likelihood of veterans' making an unwise choice, some thought VA should fully inform and educate veterans about the two options—receiving the traditional monthly disability payments or taking a lump sum—and the effects each might have on other veterans' benefits, such as priority for health care and survivor benefits. To limit the risk of mismanaging or prematurely exhausting a lump sum payment, some suggested that financial counseling be made available or even required before veterans receive the one-time payment. Some suggested that VA limit the lump sum option to certain veterans, such as those with other income sources or with less severe disabilities and a low risk of significant disability progression. However, others questioned the fairness of these suggestions. There were also concerns that some suggestions—such as fully informing the veterans of the potential effects—may not be feasible or effective. If a lump sum payment program were to be developed, the advantages and disadvantages that veterans and military personnel identified and the strategies to mitigate perceived risks could help policymakers shape the program's design and better ensure veterans' support. In its written comments, VA highlighted our points that veterans had mixed views about offering a hypothetical lump sum program and that further development of program details could affect veterans' views.

---

---

## Background

VA provides tax-free compensation to veterans who have service-connected disabilities.<sup>2</sup> The payment amount is based on a disability rating scale that begins at 0 for the lowest severity and increases in 10-percent increments to 100 percent for the highest severity. More than half of initial applicants claim multiple disabilities, and veterans who believe their disabilities have worsened can reapply for higher ratings and more compensation. For veterans who claim more than one disability, VA rates each claim separately and then combines them into a single rating. About two-thirds of compensated veterans receive payments based on a rating of 30 percent or less. At the base compensation level, these payments range from \$98 per month at 10-percent disability to \$288 per month at 30-percent disability.<sup>3</sup> Base compensation for veterans with a 100-percent disability rating is significantly higher—\$2,036 per month in 2000. Disability ratings are also used to determine eligibility for certain other VA benefits. For example, veterans with a 30-percent disability rating are entitled to an additional allowance for dependents, and those with higher ratings can become eligible for free VA nursing home care and grants to adapt housing for their needs. In addition, priority for care for VA health care is partly tied to disability ratings.<sup>4</sup>

VA has had long-standing difficulties in keeping up with its claims processing workload, resulting in increasing backlogs of pending claims.<sup>5</sup> In fiscal year 1999, VA received approximately 468,000 compensation claims—about 345,000 of which were repeat claims. More than 207,000 claims were still pending at the end of fiscal year 1999—an increase of nearly 50 percent from the end of fiscal year 1996—and the average processing time was 205 days. Of the 207,000 pending claims, about 69,000 were initial claims, and about 138,000 were repeat claims.

---

<sup>2</sup>Although VA compensation is not paid in addition to retirement pay, military retirees can waive an amount of their retirement pay to receive an equal amount of VA compensation, which would be tax-free.

<sup>3</sup>Base compensation can be supplemented with additional payments, such as dependent allowances.

<sup>4</sup>All veterans are eligible for free VA health care to treat service-connected disabilities.

<sup>5</sup>See *Veterans Benefits Administration: Problems and Challenges Facing Disability Claims Processing* (GAO/T-HEHS/AIMD-00-146, May 18, 2000).

---

In its 1996 report, the Veterans' Claims Adjudication Commission observed that 56 percent of veterans with pending repeat claims were rated as 30-percent or less disabled. Questioning whether VA should expend a significant share of its resources processing claims for veterans who are already compensated and have relatively minor disabilities, the Commission raised the possibility of offering lump sum payments to veterans with minimal disabilities. Other federal agencies have established this type of payment program. For example, under DOD's disability program, mandatory lump sum payments are given to separating military personnel with less than 20 years of service and a disability rating of less than 30 percent, and the Department of Labor allows injured civilian federal employees to request lump sum payments for bodily loss or impairment instead of the scheduled duration of weekly payments.

Six countries—Australia, Canada, Germany, Great Britain, Israel, and Japan—provide lump sum payments to at least some of their disabled veterans. Britain, Canada, Israel, and Japan make these payments to veterans with minor disabilities, while Germany supplements veterans' pensions with a lump sum payment for those whose ability to work has been severely restricted. For peacetime service, Australia pays lump sum compensation for noneconomic losses from permanent impairments; it also provides a lump sum payment for a reduced capacity to work, if the incapacity is likely to be stable and would otherwise entitle the veteran to only a relatively small weekly pension.

---

## Reactions to a Lump Sum Option Are Mixed

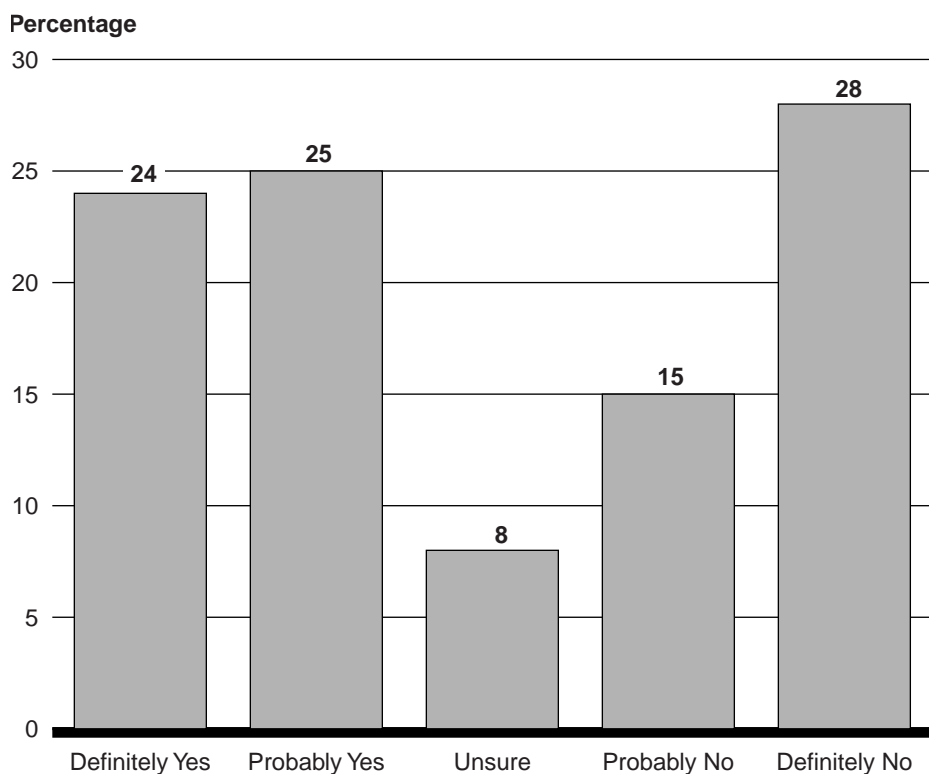
Veterans' views captured through our survey and focus groups were based on the following features of both the lump sum and monthly payment options:

- Both types of payment—monthly and lump sum—would be tax-free.
- Under both types of payment, veterans would continue to be entitled to VA medical and other current benefits.
- Under the monthly payment system, veterans could reapply for increased payments for a worsening disability; under the lump sum system, veterans could not reapply for additional payments for a worsening disability for which a lump sum had been received.
- When the lump sum recipient dies, the surviving family would not have to repay any portion of the lump sum.

Reactions to this hypothetical framework yielded no clear consensus among compensated veterans about whether a choice between monthly

payments and a lump sum should be offered to newly compensated veterans. Among compensated veterans, 49 percent said they would definitely or probably support a lump sum option for newly compensated veterans, 43 percent said they would definitely or probably not support it, and 8 percent were unsure. Respondents whose views were “definite” were also about equally split—about 24 percent definitely supported offering a choice, and about 28 percent definitely opposed it (see fig. 1).

**Figure 1: Veterans’ Views on Whether VA Should Offer a Choice Between Monthly Payments and a Lump Sum Payment**



Source: GAO survey.

Veterans’ responses indicate that experience could influence interest in taking a lump sum payment. Among all veterans, 32 percent reported they would have been interested in taking a lump sum payment when first

---

compensated had such an option been available.<sup>6</sup> Half as many—16 percent—reported that, knowing what they know today, it would have been a good choice for them. This ratio was borne out among supporters of offering a lump sum choice—56 percent indicated they would have been interested in a lump sum payment, and 28 percent said it would have been a good choice for them.

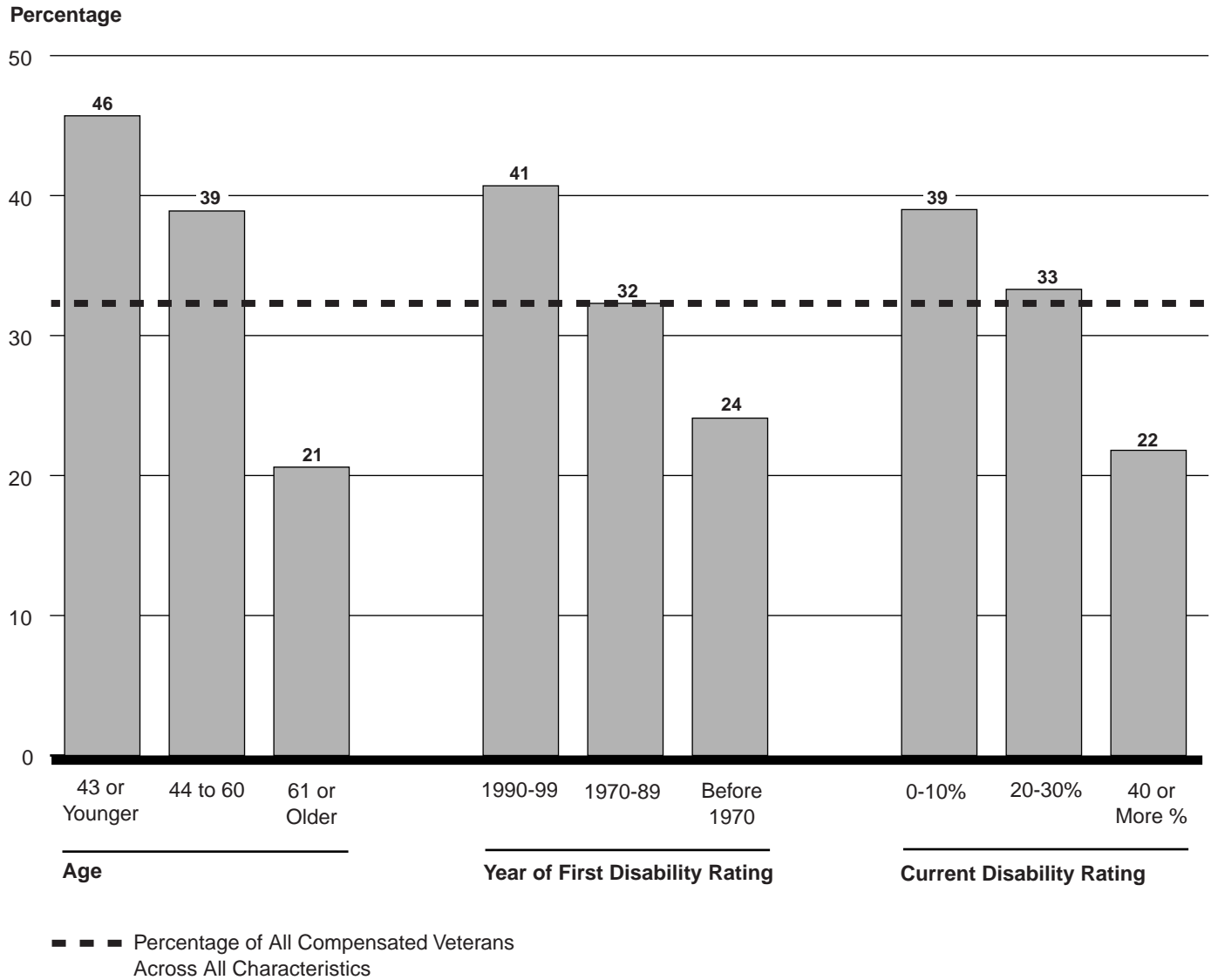
Age and severity of disability also seemed to influence the degree of interest in taking a lump sum payment. For example, among veterans aged 43 or younger, 46 percent reported they definitely or probably would have been interested in taking a lump sum payment, compared to 21 percent of veterans aged 61 or older.<sup>7</sup> Similarly, among veterans whose current disability rating is 10 percent or less, 39 percent reported definite or probable interest in a lump sum, compared to 22 percent with disability ratings of 40 percent or more (see fig. 2). Younger, more recently rated, and less severely disabled veterans—groups that expressed greater interest—could be a better gauge of newly compensated veterans' interest in taking a lump sum payment because they may be more similar to potential recipients than are other veterans. Thus, if future newly compensated veterans are offered a lump sum option, the actual percentage of those interested in it could exceed the 32 percent found among current veterans.

---

<sup>6</sup>Thirteen percent reported definite interest, and 19 percent reported probable interest.

<sup>7</sup>The age breaks at 43 years and 61 years were proxies for period of service. The age break at 43 years was used to roughly identify veterans whose service began after the Vietnam era, and the age break at 61 was to roughly identify veterans who first served prior to that era.

**Figure 2: Percentage of Veterans Who Probably or Definitely Would Have Been Interested in Taking a Lump Sum When First Compensated, by Selected Characteristics**



Source: GAO survey.

---

Although our results indicate some receptivity to a lump sum option, interest and support would likely depend on the specific design of the payment program. For example, among military retirees with 20 years of service—whose compensation is now a tax-free portion of their retirement pay—interest in a lump sum payment increased from 29 percent to 66 percent after they learned in the survey that the lump sum might be offered in addition to their full retirement pay.<sup>8</sup>

Veterans and military personnel in our focus groups expressed considerable interest in knowing additional details about the proposed lump sum option—particularly about the lump sum payment amount. Others asked for clarifications about the program, such as whether there could be circumstances under which lump sum recipients could reapply for additional compensation. In reacting to the option, some indicated that they had made assumptions about the amount. Others felt they could not give an informed opinion or make a decision without more information—or the “fine print,” as one individual put it. Some were skeptical and suggested that the lump sum option was a way for the government to cut VA benefits and reduce its obligations to those whose disabilities may get worse.

---

## Veterans and Military Personnel Perceive Flexibility as a Key Advantage and Financial Risk as a Major Disadvantage

Through our focus group sessions and discussions with veteran and military organizations, we found that veterans and military personnel perceive advantages and disadvantages of offering a lump sum option. However, information on the actual effects of lump sum payments on veterans’ financial well-being is limited. While some studies have examined how recipients use lump sum payments, they do not address how likely lump sum recipients are to be financially advantaged or disadvantaged as a result of receiving a lump sum payment rather than monthly payments.

---

## Advantages and Disadvantages Identified by Veterans and Military Personnel

Veterans and military personnel identified several advantages and disadvantages associated with a lump sum payment option (see table 1). These advantages and disadvantages generally weigh the benefit of financial flexibility against the risk of financial loss.

---

<sup>8</sup>If the lump sum is provided in addition to full retirement pay, the government would have to make an additional contribution to replace the VA offset amount to the military retirement trust fund because DOD would be responsible for the full retirement amount.

**Table 1: Perceived Advantages and Disadvantages of a One-Time Lump Sum Disability Payment Identified by Veterans and Military Personnel**

Perceived advantages	Perceived disadvantages
Offers more financial flexibility and opportunities than monthly payments.	Enables veterans to make bad investments or mismanage the lump sum and become financially worse off.
Reduces the need for future dealings with VA or the government.	Could result in veterans' becoming eligible for other federal or state income support if the one-time payment was mismanaged or poorly invested, burdening other veterans and other taxpayers.
Allows a terminally ill veteran to leave some money to his or her family or to enjoy his or her final days.	
Provides additional income to military retirees if the lump sum does not require retirement pay to be offset.	Is a less dependable income source than monthly payments, which increase with inflation, number of dependents, and increased severity of disability.
	Inadequately protects veterans whose disabilities worsen, since they would not be eligible for future benefits that are tied to higher disability ratings.
	Could be inaccurate, unfair, or inadequate compensation.

Source: GAO focus groups.

Veterans and military personnel who said the lump sum payment would put recipients at risk of being less well off or unable to pay for basic necessities such as food and housing provided several reasons to support their perception. Some reported that most lump sum recipients—particularly younger veterans and those already in financial need—would not have adequate money management skills. For example, some said that recipients may squander the one-time payment before reaching old age. They also said that more lump sum recipients would spend rather than invest the money, and those who did invest would be at risk of making poor investments. These veterans and military personnel also expressed concern that the lump sum amounts would be inadequate to protect recipients from financial setbacks that could result from a progressive disability and the inability to reapply for a higher disability rating. Some were similarly concerned that the initial rating could be inaccurate or unfairly low or that the average life span on which the lump sum was calculated would be insufficient to support recipients who outlived this average. Finally, veterans and military personnel said that choice creates risk because information may be incomplete or biased, individual judgment

---

may be poor, or both. Some said a lump sum option would actually lead to more poor judgments because people would find a large sum of money so immediately attractive that they would not adequately consider the long-term financial consequences of taking it.

On the other hand, others said that there would be benefits to a lump sum payment option. For example, some said lump sums could be used to make investments or large purchases, such as a house or an education; settle debts; or start a business. In addition, veterans and military personnel said that the benefit of providing a choice outweighed any risks. This high value placed on choice seems to underlie much of the option's support, since our survey indicated that, among veterans who supported the lump sum option, 28 percent thought in hindsight that a lump sum would have been the better choice for them. As one veteran said, "I don't believe that the lump sum option is a good idea, but it's America and veterans should have a choice." Another supporter of choice argued that, while a lump sum payment invested in stocks could be substantially reduced if the market falls, monthly payments could be routinely squandered. It was also pointed out that while a veteran who opted for a lump sum could outlive the average age used to calculate the payment, a veteran who chose monthly payments could die relatively young and therefore receive less total compensation. Moreover, focus group participants also said that veterans who were fully informed about their options, would have to take responsibility for the consequences of their choice.

---

### Information Limited on the Financial Effects of Lump Sum Payments

Little definitive information is available to validate perceptions about the potential financial effects on veterans taking a lump sum payment. Our review of the literature and inquiries about lump sum provisions for disabled veterans in several countries yielded very few studies on veterans receiving lump sum payments, and none addressing the long-term financial effects of such payments. We did find two qualitative accounts, provided to us by British and Australian officials, which told of financial difficulties among foreign disabled veterans who received lump sum compensation before World War II. In 1939, the British Ministry of Pensions stopped allowing veterans to convert their disability pensions into lump sum payments because it found that some recipients had sustained serious financial losses, particularly through business ventures. Allowing conversions of pensions to a lump sum has never been reinstated under the British War Pensions Scheme, but lump sums are paid for lower-rated disabilities. In Australia, a lump sum provision was discontinued when some impoverished World War I veterans returned for pension benefits

---

after exhausting their lump sum payments. While Australia's act covering service during armed conflicts still does not provide for lump sum disability compensation, a separate act directs lump sum compensation for certain disabilities incurred during peacetime service, on essentially the same basis as for other government employees.

Although not addressing long-term financial effects or disabled veterans, certain studies examine recipients' use of lump sum payments from other sources, indicating different ways recipients would typically manage a lump sum.<sup>9</sup> In general, studies of retirement distributions suggest that many factors affect how individuals use lump sum payments. For example, one recent study of lump sum retirement distributions reported that recipients under age 25 spent almost half of their money on everyday expenses and consumer items, compared to older age groups who spent 22 percent or less.<sup>10</sup> Another study reported that the recipient's age, education and income level, and the payment amount are influential factors, but together these factors explain less than 20 percent of the variation in saving behavior among lump sum recipients.<sup>11</sup> However, findings from these studies depend on the definitions of savings, investment, and spending used, and may have less relevance for different populations and lump sum programs.

---

## Potential Strategies Veterans and Military Personnel Believe Could Lessen Risks

Some veterans and active duty personnel we spoke with suggested certain strategies—some of which have been used in other lump sum payment programs—to minimize the potential risks associated with receiving a one-time payment. However, others had concerns about whether they would be effective, feasible, or fair.

---

<sup>9</sup>See, for example, Michael Landsberger, "Windfall Income and Consumption: Comment," and Ronald Bodkin, "Windfall Income and Consumption: Reply," *The American Economic Review*, Vol. 56 (June 1966), pp. 534-45. Observing wide variation in average tendencies to spend lump sum payments found between World War Veterans receiving insurance dividends and Israeli recipients of German restitution payments, the authors debate which factors would best explain the differences.

<sup>10</sup>Leonard E. Burman, Norma B. Coe, and William G. Gale, *What Happens When You Show Them the Money?* (Washington, D.C.: The Urban Institute, Nov. 1999).

<sup>11</sup>James Poterba, Steven Venti, and David Wise, "Lump-Sum Distributions from Retirement Saving Plans: Receipt and Utilization," *Inquiries into the Economics of Aging* (Chicago: University of Chicago Press, 1998), pp. 101-2.

---

To help ensure that beneficiaries make a wise choice, some veterans and military personnel suggested that VA develop an information and education plan—one that would fully inform beneficiaries of the benefits and risks of the two payment types and project for individual beneficiaries the likely effects of each. They further suggested that such information and education be provided well before the time the choice would be made to allow beneficiaries sufficient time to consider their options. To ensure unbiased information, it was also suggested that independent counseling on the payment choices be encouraged, as well as a second medical opinion on the disability. However, some expressed concern about VA's ability to develop an effective information and education strategy. This skepticism was based on their perceptions that the government's past efforts to inform and educate veterans about benefits were inadequate and a lump sum decision would involve complex assessments of future disability, individual financial situations, and investment risks.

Veterans and military personnel also suggested strategies that they believe would limit the risk of forgone compensation or other benefits if a veteran's disability were to progress. For example, one strategy would be to delay veterans' choice of a lump sum until they are comfortable with the stability of their condition. Others said that the progression—or stability—of an individual's disability could not be predicted accurately enough to allow fully informed choice. According to VA and medical experts in disability evaluation, definitive medical knowledge is often insufficient to fully inform veterans of whether their disabling condition would progress or remain the same.<sup>12</sup> The course of disability is highly individualized and can be complicated by multiple impairments. The limited historical data from our survey suggest that while some veterans get higher ratings over time for worsening disabilities, others get lower ratings for improved disabilities.<sup>13</sup> For example, among veterans who received their first ratings

---

<sup>12</sup>Some disability programs have provisions for determining some disabilities as unlikely to change based on current medical knowledge. For instance, the DOD program allows for service members to be removed from the Temporary Disability Retired List if the preponderance of medical evidence indicates that the severity of the condition will probably not change within the next 5 years to the point of requiring a higher or lower disability rating.

<sup>13</sup>These data are limited measures of the risks in either direction because they do not (1) establish whether this group is historically typical, (2) include deceased persons who were first rated during the same period, or (3) consider rating changes between initial and current ratings.

---

before 1970, about 21 percent reported higher current ratings than initial ratings, and almost 17 percent had lower current ratings.

Another strategy veterans and military personnel suggested would be to estimate veterans' lifetime disabilities and use these estimates in calculating their lump sum payments. The VA Inspector General has similarly proposed that VA revise its disability rating criteria to reflect expected lifetime impairment.<sup>14</sup> While projecting the progression of an individual's disability over his or her lifetime would prove difficult, determining average progression factors using VA historical data may be possible. Another suggested strategy would be to allow reevaluations of lump sum recipients' disability ratings—not for the purpose of providing additional payment but to determine their eligibility, and that of their dependents, for other VA benefits that are tied to disability ratings, such as medical care or survivor benefits.<sup>15</sup> Some participants suggested, however, that disabled veterans should also be able to seek reevaluation for additional compensation payments if their disability progresses.<sup>16</sup>

Other strategies for reducing the financial risk associated with a lump sum payment were aimed at encouraging responsible financial management. For example, focus group respondents recommended financial counseling and education; investment options, such as in the federal government's Thrift Savings Plan; or payment allocations, such as paying lump sums in allotments or initially putting the money into a trustee account. It was also suggested that returns on investments could be tax-free. However, concerns were also raised about these strategies, including perceptions that the government would not be able to successfully instruct people on how to manage their money and that these strategies would increase government bureaucracy.

---

<sup>14</sup>Office of Inspector General, Department of Veterans Affairs, *Report of Audit: Timeliness of Benefits Claims Processing Can Be Improved* (Mar. 25, 1994).

<sup>15</sup>VA partially pays for dependent and survivor medical care if a veteran is rated 100 percent disabled or dies at this rating, and it provides survivor payments if the veteran had a certain duration of being rated at 100 percent.

<sup>16</sup>We found such a feature in Canada's compensatory payment system. After receiving a mandatory lump sum compensation for minor service-connected disabilities, Canadian veterans become eligible for monthly payments if their disability worsens.

---

Some of the suggested strategies were aimed at protecting vulnerable populations from financial risk. Specifically, some suggested that a lump sum payment option not be offered to those who would be least able to manage the money well—such as those who have been declared incompetent or have a history of significant psychological disabilities—or that the lump sum payment be assigned to someone who could manage the money for the payee.<sup>17</sup> One concern that was raised with this type of strategy was that there would not be enough time to declare a newly compensated veteran incompetent or in need of a representative before the veteran was offered a choice.

A similar strategy suggested by veterans and military personnel was to limit the lump sum option to the least financially vulnerable—that is, veterans who would not be likely to suffer great economic hardship if they were to lose the lump sum payment. These veterans would include those who would receive small monthly compensation payments, have stable or less severe disabilities, or have alternative income sources.<sup>18</sup> However, respondents raised concerns that any safeguard restricting who would be offered the lump sum option could be viewed as unfair.

---

## Agency Comments

In its written comments, VA highlighted our points that veterans had mixed views about offering this hypothetical lump sum program and that further development of program details could affect veterans' views. (The full text of VA's comments is presented in app. II.)

---

We are sending copies of this report to the Honorable Hershel W. Gober, Acting Secretary of Veterans Affairs, appropriate congressional committees, and other interested parties. We will also make copies available to others upon request.

---

<sup>17</sup>VA currently has a fiduciary program to ensure that incompetent beneficiaries and their estates are protected from fraud, waste, and abuse. Also, according to the Social Security Administration, it assigns a representative to about 25 percent of Supplemental Security Income disability beneficiaries.

<sup>18</sup>According to a British official, recent consideration has been given to splitting disability compensation into a lump sum and pension. This arrangement would give veterans an income source even if they completely spend the lump sum.

---

If you or your staff have any questions concerning this report, please contact me at (202) 512-7101 or one of the GAO contacts listed in appendix III. Other key contributors to this report are also listed in this appendix.

Sincerely yours,

A handwritten signature in black ink that reads "Cynthia Bascetta". The script is cursive and fluid, with the first name and last name clearly distinguishable.

Cynthia Bascetta  
Director, Health Care—Veterans' Health  
and Benefits Issues

---

---

---

# Scope and Methodology

---

To gain an understanding of support for and interest in lump sum disability payments as a potential option for veterans, we surveyed and met with a variety of interested parties, including veterans currently receiving VA disability payments, active-duty service members, and military and veteran service organizations. For our survey, we mailed a questionnaire asking for views about a possible lump sum option to a representative sample of 2,481 veterans who currently receive disability compensation and reside at a domestic address. During pretests of the survey questionnaire with over 30 veterans, we discussed the perceived advantages and disadvantages of a lump sum option and what might be done to mitigate the disadvantages. We also discussed reactions to the option in focus groups of veterans and active-duty service members in the Air Force, Army, Marines, and Navy. To determine what is known about the impact on recipients of receiving a lump sum, we reviewed relevant literature on lump sum payments and communicated with representatives from other federal agencies and foreign countries that provide some form of lump sum payment to civilian and military beneficiaries.

We performed our evaluation from August 1999 through November 2000 in accordance with generally accepted government auditing standards.

---

## Survey Methodology

The objective of our survey was to learn about views veterans with service-connected disabilities have about lump sum payments as a compensation option. To elicit their views, we asked veterans to react to a hypothetical program—offering newly compensated veterans a choice between monthly payments and a lump sum payment—with the following features: (1) Monthly payments and the lump sum payment would both be tax-free. (2) Regardless of the type of payment chosen, veterans would continue to be entitled to VA medical and other current benefits. (3) Under the monthly payment system, veterans could reapply for increased payments for a worsening disability, but under the lump sum system, veterans could not reapply for additional payments for a worsening disability for which a lump sum had been received. (4) When the lump sum recipient dies, the surviving family would not have to repay any portion of the lump sum.

The survey questions asked veterans whether VA should offer veterans a choice between monthly payments and a lump sum when they are first granted compensation and whether they would have been personally interested in a lump sum had it been available at that time. They were also asked, with the advantage of hindsight, which option would have been better for them. We pretested questions in group and individual discussions

---

with veterans in Denver and Littleton, Colorado; Baltimore, Maryland; Washington, D.C.; and Fairfax and Fredricksburg, Virginia. These sites were chosen because of their proximity to our staff.

---

## Sampling Strategy

A sample of 2,484 veterans was drawn from VA's Compensation and Pension file as of October 23, 1999. Our population of interest was veterans currently receiving compensation for a service-connected disability who resided at domestic addresses.<sup>1</sup> To minimize the probability of sending the questionnaire to veterans unable or incompetent to participate in the survey, we excluded veterans from the population with two or more psychological disabilities or a single psychological disability rated 60 percent or more, those whose records indicated incompetence, and those residing in nursing homes. After these exclusions, and also excluding those with nondomestic addresses, our sampled population covered about 94 percent of all compensated veterans in VA's file.

In addition to determining the level of support among compensated veterans for a lump sum option, we also wanted to learn from our survey something about what the interest in a lump sum might be if such a choice were offered. We wanted to be able to estimate the level of interest for specific categories of veterans. Therefore, we oversampled various groups to ensure that we could construct these estimates of interest within an acceptable margin of error. The population was stratified by the characteristics in table 2.

---

**Table 2: Stratification Levels of Sample by Characteristic**

Characteristic	Stratification levels
Disability rating	0 to 10 percent, 20 to 30 percent, 40 percent or more
Age	43 or younger, 44 to 60, 61 or older
Military retirement	Retiree or not
Recently compensated	Those since Nov. 6, 1998, and those before Nov. 6, 1998

---

<sup>1</sup>In addition to U.S. addresses, domestic addresses include those for U.S. overseas military mail and those in Wake Island, Puerto Rico, Virgin Islands, Guam, and Samoa.

---

Before surveying, we checked our sample file against VA records<sup>2</sup> to identify veterans who had been terminated from the compensation rolls subsequent to our sample draw. We also visually inspected the addresses and dropped from the sample three veterans whose mailing address indicated that they should have been excluded—that is, the address suggested the likelihood that the veteran was incapable of responding. A total of 2,481 questionnaires were mailed for our survey.

---

## Survey Response

Our survey response rate is based on the proportion of questionnaires that were returned with usable information. We mailed our questionnaire in January 2000. A second mailing to nonrespondents occurred approximately a month later. We accepted returned questionnaires through April 26, 2000. Of the sample, 1,921 usable questionnaires were returned, for an overall response rate of 78 percent. For 16 of the sampled veterans, we received notification that the veteran had died or was ineligible for the survey. These cases were removed from the sample. Table 3 details the final disposition of the questionnaires mailed.

---

**Table 3: Sample Size and Response Rate**

Sample	Number
Total questionnaires initially mailed	2,481
Deceased	7
Ineligible recipients <sup>a</sup>	9
Adjusted sample size	2,465
Postal nondeliverables	45
Refusals	19
Questionnaires not returned	480
Total usable questionnaires returned	1,921
Final response rate	78%

<sup>a</sup>Veterans were designated ineligible if we received information that they were institutionalized, incapacitated, or no longer receiving compensation.

---

<sup>2</sup>The sample file was checked against the December 21, 1999, version of VA's Compensation and Pension file, the most current version at that time.

---

Response rates were above 65 percent for each stratification level in the sample. To produce our estimates of responses in the population from which we sampled, we weighted each respondent's answers based on our stratification scheme.

---

## Sampling Errors

All sample surveys are subject to sampling error, that is, the extent to which the survey results differ from what would have been obtained if the whole population had received and returned the questionnaire. Measures of sampling error are defined by two elements, the width of the confidence interval around the estimate (sometimes called precision of the estimate) and the confidence level at which the interval is computed. The confidence interval refers to the fact that estimates actually encompass a range of possible values, not just a single point. This interval is often expressed as a point, plus or minus some value (the precision level). For example, an estimate of 75 percent plus or minus 2 percentage points means that the true population value is estimated to lie between 73 percent and 77 percent, at some specified level of confidence.

The confidence level of the estimate is a measure of the certainty that the true value lies within the range of the confidence interval. We calculated the sampling error for each statistical estimate in this report at the 95-percent confidence level. This means, for example, that if we repeatedly sampled veterans from the same population and performed the analyses again, 95 percent of the samples would yield values that fall within the confidence intervals of our estimates. Sampling errors in this report range from 1 to 7 (plus or minus) percentage points, with most being less than 5 percentage points.

---

## Nonsampling Errors

In addition to sampling errors, surveys can also be subject to other types of nonsystematic (noise) or systematic (bias) error that can affect results, such as differences in interpretation of the question or respondents' inability or unwillingness to provide correct information. Unlike sampling errors, the magnitude of the effect of nonsampling errors is not normally known; however, steps can be taken to minimize their impact.

One potential source of nonsampling error that may be especially important in this survey is questionnaire construction. Our early pretests revealed that compensation benefits can be an emotion-laden subject for veterans. Some veterans had strong, unanticipated reactions to language used to phrase the question about offering a choice of payments. To ensure

---

that the question was as clear and unbiased as possible, we did extensive pretesting of the questionnaire, making modifications based on veterans' comments. We also consulted with an outside expert in questionnaire design, who reviewed our survey instrument and provided recommendations.

In addition, veterans found it difficult to respond to questions about a lump sum choice without details about what that choice might entail, especially the amount of the lump sum payment. It may be that given a more detailed and specific lump sum option, a larger or smaller proportion of veterans would support VA's offering veterans a choice. The magnitude of the effect of these potential biases, if any, on survey results is unknown.

---

## Focus Groups

To more fully understand why surveyed veterans supported or opposed a lump sum option, we conducted focus groups with veterans receiving disability compensation at VA Medical Centers in Cheyenne, Wyoming, and Grand Junction, Colorado. To gauge the opinions of people who could be affected by such a change in policy, we also conducted focus groups with active-duty military members in all four services. We spoke with members of the Air Force at Buckley Air National Guard Base, Colorado; Army at Fort Carson, Colorado; Marine Corps at Quantico, Virginia; and Navy at Norfolk, Virginia. Since compensated veterans in our survey pretests had also discussed their reasons for support or opposition, we considered their input in our analysis.

The sites for veterans' focus groups were in smaller cities, in part because we had already gathered reactions of veterans in some large metropolitan areas during our pretests. Regardless, findings from focus groups and pretest respondents cannot be generalized to larger populations.

---

## Experiences of Other Agencies and Foreign Countries

To obtain information on the experiences of other government agencies offering lump sum payments to the disabled, we contacted officials administering the Department of Labor's Federal Employees Compensation, State Employment Compensation, Black Lung, and Longshore and Harbor Worker's programs. We also obtained information from the Social Security Administration about its Disability Insurance program and from DOD about its disability separation and retirement benefits.

---

To capture the experiences of foreign governments with this type of payment, we reviewed the compensation programs for disabled veterans in Australia, Canada, Israel, Germany, Great Britain, and Japan. We selected these countries because they were the focus of lump sum discussions in the *1999 Report of the Congressional Commission on Servicemembers and Veterans Transition Assistance*. We contacted officials from these countries directly or through the Department of State. Both Germany and Japan provided information about their programs in their native languages. We used translators from the Department of State to translate their responses into English.

---

---

# Comments from the Department of Veterans Affairs



THE SECRETARY OF VETERANS AFFAIRS  
WASHINGTON

NOV 22 2006

Ms. Cynthia Bascetta  
Director, Health Care-Veterans Health  
and Benefits Issues  
U. S. General Accounting Office  
441 G Street, NW  
Washington, DC 20548

Dear Ms. Bascetta:

I have reviewed your draft report, ***VETERANS' BENEFITS: Veterans Have Mixed Views on a Lump Sum Disability Payment Option*** (GAO-01-172). I appreciate your sharing the results of your questionnaire and your focus groups. Absent program details, the reactions to this hypothetical framework yielded no clear consensus among compensated veterans about whether or not a choice between monthly payments and a lump sum should be offered to newly compensated veterans. I am certain further development of the details would have substantially affected veterans' views.

Thank you for the opportunity to comment on your draft report.

Sincerely,

A handwritten signature in black ink, appearing to read "Hershel W. Gober".

Hershel W. Gober  
Acting

---

# GAO Contacts and Staff Acknowledgments

---

## GAO Contacts

Shelia Drake, (202) 512-7172  
Terry Hanford, (303) 572-7379

---

## Staff Acknowledgments

In addition to those named above, the following staff made key contributions to this report: Sandra Davis, Linda Diggs, Deborah Edwards, Susan Lawes, Karen Sloan, Vanessa Taylor, Joan Vogel, and Greg Whitney.

---

---

## Ordering Information

The first copy of each GAO report is free. Additional copies of reports are \$2 each. A check or money order should be made out to the Superintendent of Documents. VISA and MasterCard credit cards are accepted, also.

Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

***Orders by mail:***

U.S. General Accounting Office  
P.O. Box 37050  
Washington, DC 20013

***Orders by visiting:***

Room 1100  
700 4th St. NW (corner of 4th and G Sts. NW)  
U.S. General Accounting Office  
Washington, DC

***Orders by phone:***

(202) 512-6000  
fax: (202) 512-6061  
TDD (202) 512-2537

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

***Orders by Internet:***

For information on how to access GAO reports on the Internet, send an e-mail message with "info" in the body to:

[info@www.gao.gov](mailto:info@www.gao.gov)

or visit GAO's World Wide Web home page at:

<http://www.gao.gov>

---

## To Report Fraud, Waste, or Abuse in Federal Programs

***Contact one:***

- Web site: <http://www.gao.gov/fraudnet/fraudnet.htm>
- e-mail: [fraudnet@gao.gov](mailto:fraudnet@gao.gov)
- 1-800-424-5454 (automated answering system)





**United States  
General Accounting Office  
Washington, D.C. 20548-0001**

**Official Business  
Penalty for Private Use \$300**

**Address Correction Requested**

**Bulk Rate  
Postage & Fees Paid  
GAO  
Permit No. GI00**

